WSP Contribution Rates

Background

Historically, members of the Washington State Patrol Retirement System (WSPRS) contributed 7 percent of pay with the balance provided by employers. In 2001, funding provisions for the plan were modified so that members pay one-half the cost of the system or 2 percent, whichever is greater, and employers pay the balance. At the time this funding policy changed, contribution rates were at historic lows. Now, projected member contribution rates are increasing and could exceed 7 percent within several biennia. For this reason, the Troopers' Association is proposing to return the funding policy to something more in line with the historical split. The proposal is also intended to promote contribution rate adequacy and stability by establishing a minimum total contribution rate (or rate "floor") beginning July 1, 2009. This issue was studied by the SCPP in 2004 and additional background material is available in the *2004 Interim Issues Projects Report* under Tab 18.

Committee Activity

Public Safety Subgroup meetings:
- September 27, 2005
- October 18, 2005
- November 15, 2005

Presentations:
- November 15, 2005 – Executive Committee
- December 13, 2005 – Full Committee

Proposal:
- December 13, 2005 – Full Committee

Recommendation to Legislature

Establish a new cost-allocation formula by which members would pay one-third the cost of the plan with a 7 percent cap and employers would pay the balance. A minimum total contribution rate would become effective July 1, 2009, equal to 70 percent of the system's normal cost as calculated under the entry age normal cost method.

Staff Contact

Laura Harper, Senior Research Analyst, Legal
360.786.6145; harper.laura@leg.wa.gov

History of WSPRS Funding Policy

Select Committee on Pension Policy
Public Safety Subgroup

September 27, 2005

Laura C. Harper
Senior Research Analyst/Legal

What is current policy?

- Cost–Sharing Policy
  - Member contribution rate is ½ cost of system or 2 percent, whichever is greater.
  - Employer pays balance.
- Funding Method
  - WSPRS uses “aggregate” funding method.
  - Does not allow for accrual of UAAL (unfunded actuarial accrued liability).

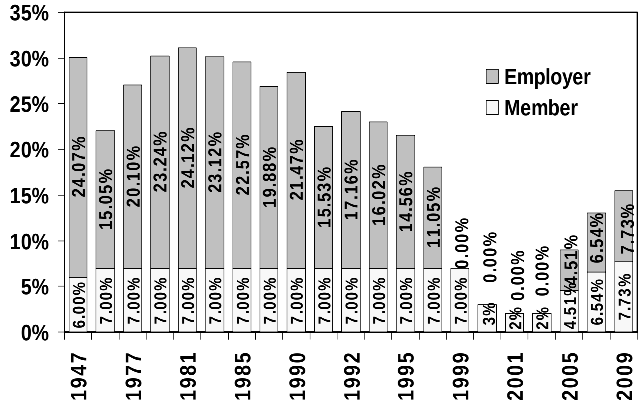
Funding Policy Change

- Cost-Sharing policy changed in 2001.
  - From 1948 until 1999, members paid 7 percent of pay with balance provided by employers.
  - New approach is consistent with the cost-sharing approach in the Plans 2, with the exception of the 2 percent member minimum.

Funding Method Change

- Funding method also changed in 2001.
  - Previous method was "entry age normal."
  - Former method allowed for accrual of UAAL (unfunded actuarial accrued liability).

WSP Member and Employer
Contribution Rates Historical 1947-2003
and Forecast 2005 - 2009



Status of Plan in 2001

- When funding provisions were modified, plan was in fully-funded status.
  - Member contributions = 2 percent.
  - Employer contributions = 0 percent.
- State's contribution had been suspended since 1999.

Role of JCPP in 2001 Changes

- 1999 legislature directed JCPP to study the method for setting employer and employee contribution rates during 2000 interim and propose changes.
- 2001 JCPP legislation:
  - Included funding policy changes.
  - Also included substantial benefit changes for members commissioned on or after January 1, 2003, (detailed in 2004 report).

2001 Plan Structure

- Benefit changes did not result in a closed Plan 1 and a new Plan 2.
  - This was a departure from approach in every other Washington retirement system.
  - References to a WSPRS Plan 1 and 2 are to distinguish benefits for old hires and new hires, but are not formal (statutory) distinctions.

2001 Funding Structure

- No WSPRS 2 fund
  - All contributions go to same fund.
  - All members are part of same experience group.
  - All members pay same contribution rate.
- "Plan 2" members add liability to plan, but have lower normal cost than "Plan 1" members.

2004-2005 SCPP Activity

- SCPP studied "WSP Rate Stability" in 2004 interim and proposed legislation in 2005.
- In-depth report from last interim provides complete study of this issue (included in materials).
- SCPP established subgroup in 2005 interim.

Issue Today

- Member rates are currently projected to surpass 7 percent in 2009-2011 biennium.
- Possible Bakenhus concern for "Plan 1" members who feel they have a contractual right to historical limit of 7 percent; clearly not a concern for "Plan 2" members.

Issue Today (continued)

- Troopers' Association wants to reformulate the 2001 cost-sharing design:
  - ⅓ member, ⅔ employer, with 7 percent cap on member contributions.
- Cost-sharing would return to something more consistent with historical split.

Why are rates increasing?

- Due to smoothing, plan is still recognizing losses from poor investment returns in 2000-2001.
- Plan is open to new entrants.
  - As new members join, new liabilities are recognized very quickly.
  - In closed plans like LEOFF 1, reduction of surplus funds is slower.

Contribution Rate Stability

- "… establish long-term employer contribution rates, which will remain a relatively predictable proportion of the future state budgets."
- Recent system-wide legislation addresses historic volatility with smoothing and asset corridor measures.

2004 SCPP Proposal

- Member rates at ⅓ of total cost of system or 7 percent, whichever is less, with member contribution rate floor of 2 percent.
- Employer pays the balance.
- 2 percent floor for member contribution rate helps address rate adequacy.

Status of 2005 SCPP Bill

- Introduced as HB 1317/SB 5341.
- Bill did not move from Appropriations and did not receive a hearing in Ways and Means.
- Is technically still alive for the 2006 legislative session.

Estimated Fiscal Impact on Employers

Total Employer Costs:

2006-07	$ 1.1 million
2007-09	3.7 million
2006-31	114.7 million

Implications of Change

- Changing cost-sharing formula would not change liabilities of plan.
- Would shift ⅙ of cost from members to employers.
- Changes cost allocation of any future benefit improvements: members pay ⅓ instead of ½.

Members Impacted

- 1,057 Active (based on 1/24/05 FN)
  - 997 in WSPRS 1
    - Historically did not pay more than 7 percent.
  - 60 in WSPRS 2

Next Steps

- Recommend that SCPP continue to support HB 1317/SB 5341?
- Introduce same approach as new bill in 2006?
- Pursue some other approach to cost-sharing and rate setting?

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-1018.2/06
ATTY/TYPIST:	LL:mos
BRIEF DESCRIPTION:	Setting contribution rates in the Washington state patrol retirement system.

AN ACT Relating to contribution rates in the Washington state patrol retirement system; amending RCW 41.45.0631; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.45.0631 and 2001 c 329 s 11 are each amended to read as follows:

(1) Beginning July 1, ((~~2001~~)) 2006, the required contribution rate for members of the Washington state patrol retirement system shall be ((~~two percent or equal to the employer rate adopted under RCW 41.45.060 and 41.45.070 for the Washington state patrol retirement system, whichever is greater~~)) 3.01 percent and the required basic employer contribution rate shall be 6.01 percent.

(2) Beginning July 1, 2007, the required Washington state patrol retirement system contribution rates shall be adopted under RCW 41.45.060 and 41.45.070, subject to the following funding policies:

(a) The member contribution rate shall be one-third of the total Washington state patrol retirement system contribution rate or seven percent, whichever is less, and the employer contribution rate shall be the balance of the total contribution rate. This allocation formula shall be applied only after the total Washington state patrol contribution rate has been determined, and the determination shall include the application of any minimum total contribution rate that may be in effect for the Washington state patrol retirement system.

(b) Beginning July 1, 2009, a minimum total contribution rate is established for the Washington state patrol retirement system. The total Washington state patrol retirement system contribution rate as adopted by the pension funding council and subject to revision by the legislature may exceed, but shall not drop below, the established minimum total contribution rate. The minimum total contribution rate shall equal the total contribution rate required to fund seventy percent of the Washington state patrol retirement system's normal cost as calculated under the entry age normal cost method. Upon completion of each biennial actuarial valuation, the state actuary shall review the appropriateness of this minimum total contribution rate and recommend to the legislature any adjustments as may be needed.

NEW SECTION. **Sec. 2.** This act takes effect July 1, 2006.

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	35	12/19/05	Z-0885.2/Z-1018.2

SUMMARY OF BILL:

This bill impacts the Washington State Patrol (WSP) Retirement System by changing the contribution rate setting formula. This bill sets rates for the 2007 fiscal year at 3.01 percent for members and 6.01 percent for the employer. Beginning July 1, 2007, the member contribution rate is one-third of the total cost of the system or 7 percent, whichever is less, and the employer would then be responsible for the balance. The total contribution rate for the system is determined before the cost-sharing formula is applied. As part of the total contribution rate determination, a minimum total contribution rate is established beginning July 1, 2009. This floor is equal to 70 percent of the Washington State Patrol Retirement System's normal cost as calculated under the entry age normal cost method.

Effective Date: July 1, 2006

CURRENT SITUATION:

Currently, the member contribution rate in WSP is set at half the cost of the system or 2 percent, whichever is greater. The employer is then responsible for the remaining costs of the system. Because of the funded status of the system, member contribution rates were 2 percent in 2001-2005 and there were no employer contributions during that period. Beginning July 1, 2005, both the employer and employee contribution rates were increased to 4.51 percent of pay.

MEMBERS IMPACTED:

All 1,057 active members of this system would be affected by this bill.

For members impacted by this bill, there would be no increase in benefits, but there would be a decrease in member contributions.

ASSUMPTIONS:

The one-third member, two-thirds employer split would apply for all years beginning July 1, 2006. The member contribution rate is rounded to two decimal places after multiplying the total rate by one-third. This rate is then compared to the 7.00 percent maximum to get the final member rate. The state contribution rate would then be the difference between the total rate and the member rate. The minimum total contribution rate of 70 percent of the entry age normal cost rate is established beginning July 1, 2009. The previously described member and employer rate allocation formula is applied only after the calculation of the minimum total contribution rate. Here are some illustrative examples:

- The current total rate of 9.02 percent would be split, with 3.01 percent for the member and 6.01 percent for the employer, effective July 1, 2006.
- A total rate of 12 percent would result in a member contribution of 4.00 percent and the state contribution rate would be 8.00 percent.
- A total rate of 25 percent would result in a rounded member contribution of 8.33 percent, which would be limited to 7.00 percent. The state contribution rate would be 18.00 percent in this case.
- If the entry age normal cost rate were 20 percent, the minimum total contribution rate would be 14 percent, and the member and employer allocations would be 4.67 percent and 9.33 percent respectively.
- With a total rate of 12 percent under the aggregate method and a floor of 70 percent of a 20 percent entry age normal cost rate, or 14 percent, the floor would apply. The member contribution would be 4.67 percent and the state contribution rate would be 9.33 percent
- With a total rate of 25 percent under the aggregate method and a floor of 70 percent of a 20 percent entry age normal cost rate, or 14 percent, the floor would not apply. The member contribution would be 7.00 percent and the state contribution rate would be 18.00 percent.
- With a total rate of 20 percent under the aggregate method and a floor of 70 percent of a 32 percent entry age normal cost rate, or 22.4 percent, the floor would apply before applying the one-third, two-thirds split and the 7 percent member minimum rate. The member contribution would be 7.00 percent and the state contribution rate would be 15.40 percent.
- The projected contribution rates for the current six-year period under the current and proposed formulas are shown in the following table:

	Current Formula		Proposed Formula	
	50.00%	50.00%	33.33%	66.67%
Year	Member	Employer	Member	Employer
2005-2006	4.51%	4.51%	4.51%	4.51%
2006-2007	4.51%	4.51%	3.01%	6.01%
2007-2008	6.54%	6.54%	4.36%	8.72%
2008-2009	6.54%	6.54%	4.36%	8.72%
2009-2010	7.73%	7.73%	5.15%	10.31%
2010-2011	7.73%	7.73%	5.15%	10.31%

We did not include any cost impact related to the establishment of a floor contribution rate. A floor, or minimum, contribution rate would not be expected to impact rates in the long run. The short term increase in rates in years in which the floor applied would be offset by lower rates in future years. A floor could actually result in a long-term savings to the extent that investment earnings from the extra contributions due to the floor are used to reduce future contribution requirements. We considered but did not include any cost impact for any issues related to market timing and when the extra contributions from the floor are invested.

The determination that a floor would result in no additional cost and possibly a savings is based on the assumption that any reserve or cushion that is built up from a floor is used to reduce future contribution requirements and not used to provide for benefit increases. If the extra contributions from a floor are used for benefit increases, then there would be a cost to having a floor.

FISCAL IMPACT:

Description:

This proposal would not change the liabilities of the current plan. On average, it would shift one-sixth of the total contributions from members to employers. It would also change the cost allocation of any future benefit improvements so that the members would only be paying for one-third instead of one-half and the employer would be responsible for two-thirds of the cost instead of one-half.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the system and the required actuarial contribution rate as shown below:

	System: Washington State Patrol		
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to All Current Members)	$739	$0	$739
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$0	$0	$0
Unfunded Liability (PBO) (The Value of the Total Commitment to All Current Members Attributable to Past Service)	($100)	$0	($100)
Increase in Contribution Rates: (Effective 7/1/2006)			
Employee	(1.50%)		
Employer State	1.50%		

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	WSP
2006-2007	
State:	
General Fund	$0.0
Non-General Fund	1.1
Total State:	**$1.1**
Local Government	$0.0
Total Employer	$1.1
Total Employee	($1.1)

Costs (in Millions):	WSP
2007-2009	
State:	
General Fund	$0.2
Non-General Fund	3.5
Total State:	**$3.7**
Local Government	$0.0
Total Employer	$3.7
Total Employee	($3.7)
2006-2031	
State:	
General Fund	$3.3
Non-General Fund	111.4
Total State:	**$114.7**
Local Government	$0.0
Total Employer	$114.7
Total Employee	($114.7)

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill, as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets, and assumptions as those used in preparing the September 30, 2004, actuarial valuation report of the Washington State Patrol Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the system will vary from those presented in the valuation report of this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill that were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This draft fiscal note is intended for use only during the 2006 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts that are expected to be paid in the future, taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2, and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

RECEIVED
NOV 1 0 2005
Office of
The State Actuary

STATE OF WASHINGTON
WASHINGTON STATE PATROL
General Administration Building, PO Box 42600 • Olympia, Washington 98504-2600 • (360) 753-6540

November 9, 2005

The Honorable Bill Fromhold, Chair
Select Committee on Pension Policy
PO Box 40914
Olympia WA 98504-0914

Dear Representative Fromhold:

During the Public Safety Subgroup meeting on October 18, 2005, the funding policy history of the Washington State Patrol Retirement System (WSPRS) was discussed. HB 1317, introduced during the 2005 session and being reconsidered for 2006, proposed to change the contribution rate for members of the WSPRS to seven percent or one-third of the rate adopted under RCW 41.45.060 and 41.45.070 for the WSPRS, whichever is less.

In the course of this meeting, Representative Conway asked the position of the Washington State Patrol (WSP) regarding HB 1317. He was advised the Patrol was unable to provide a position at that time due to concerns regarding the impact this proposal would have to the State Patrol Highway Account, which is expected to have a negative fund balance by July 2007. Representative Conway and the subgroup were advised that the WSP would need to discuss the matter with Governor Gregoire's office before committing to a position.

On October 21, 2005, Captain Jeff DeVere met with representatives from Governor Gregoire's office regarding HB 1317. Discussed were the impacts of increased employer contribution to the 2005 -2007 ($1.1 million) and the 2007 -2009 ($3.7 million) budgets. Attached is the Fund Balance Detail sheet indicating the challenge facing the department regarding this proposal.

The WSP will be unable to provide a definitive position on HB 1317 until the Governor's budget has been finalized in December 2005.

If you have any questions or concerns regarding this matter, please contact me at 360-753-5299.

Sincerely,

CHIEF JOHN R. BATISTE

Captain Jeff DeVere
Government and Media Relations

JKD:mp
cc: Chief John R. Batiste, Washington State Patrol
Marty Brown, Legislative Director, Office of the Governor
Victor Moore, Director, Office of Financial Management
Tom Pillow, President, Washington State Patrol Troopers' Association

Fund Balance Detail

DOT0509 (R) - 2005-07

Washington State Patrol - Request Level

081 - State Patrol Highway Account
($ in Thousands)

		03-05	05-07
Beginning Fund Balance (Phase III)		**12,817**	**21,368**
Revenue Data (0509)			
Total Federal Revenue		6,957	10,544
Total Local Revenue		1,465	2,177
I-776 Impact (refund from prior biennium)		(1,491)	-
Treasury Deposit Earnings (80%)		478	600
ACCESS user fees		1,600	1,600
Transfer - Motor Vehicle Account		(4,000)	1,406
Transfer - DRS		(290)	-
Court DUI cost reimbursement		1,026	1,026
Motor Veh Lics Permits Fees (Sept 2005)		252,037	261,688
Terminal Safety Inspection Fees From UTC		2,500	2,500
Breath Test Fees		1,750	1,750
Other Revenue		1,000	682
Minimum Fund Balance		-	(3,500)
Fund Balance Adjustments		-	898
Revenue Total		**263,032**	**281,371**
Expenditure Data (DOT0509)			
225 010 Field Operations 010 (WSP)		181,187	213,243
225 030 Support Services 030 (WSP)		71,089	84,756
225 90C WSP Capital		2,205	2,801
2006 Supplemental Request			**10,696**
SCPP Pension Proposal			**1,100**
Projected Expenditure Total		**254,481**	**312,596**
Projected Ending Fund Balance	**$**	**21,368**	**$ (9,857)**

WASHINGTON STATE PATROL TROOPERS ASSOCIATION

200 UNION AVE. SE STE. 200, OLYMPIA, WASHINGTON 98501 (360) 704-7530 FAX (360) 704-7527

May 26, 2005

RECEIVED

JUN 7 - 2005

Office of
The State Actuary

Senator Karen Fraser, Chair
Select Committee on Pension Policy
417 JAC
PO Box 40422
Olympia, WA 98504-0422

Re: Troopers Association Request for SCPP Agenda Items

Dear Senator Fraser:

As the incoming president of the Troopers Association, I wanted to first thank you for your help during the last Legislative session. We are particularly pleased with the passage of Second Substitute House Bill 1188, our collective bargaining bill. As always, there is still more work to do. I am writing to ask for your help in allowing us to bring the following issues to the Select Committee on Pension Policy during the 2005 interim:

- Trooper Contributions. We were grateful for the SCPP's support for our contribution rate bill, HB 1317/SB 5341. That bill would have returned the Troopers to a 1/3 – 2/3 contribution ratio with a 7% cap on employee contributions. Unfortunately, neither bill made it out of the house of origin. We would like to continue to work the bill with the Committee during the interim.
- Increase Mandatory Retirement to Age 65. The Troopers have supported this bill in the past and would like to continue to keep it alive during the interim.
- Disabled Troopers Converting to Retirement. As you know, disabled troopers are not retired. Instead, they remain on the payroll at half-salary and are paid out of the Patrol's operating budget. A recent decision of the Chelan County Superior Court, In Re Truman, considered the survivor pension calculation for a Trooper who died while on disability status. While the Troopers association agrees with the decision, it does point out some confusion about the treatment of disabled Troopers under the retirement system. We would like to discuss the possibility of having disabled Troopers continue to contribute to the retirement system and convert to retiree status at age 60.
- Distinctions between WSPRS and PERS. Discussions surrounding the Troopers contribution bill brought to light some ambiguity about the policy differences between WSPRS and PERS 2. We would like an opportunity to discuss those issues with the Committee for background when considering WSPRS issues.

Finally, we are asking you to convene the public safety subcommittee authorized under RCW 41.04.278, to facilitate consideration of these issues.

Thank you for your consideration of this request. Please feel free to either call me at (360) 704-7530 or Rick Jensen at (360) 951-9531 with any questions or for discussion.

Sincerely,

Tom Pillow

Tom Pillow, President
Washington State Patrol Troopers Association

cc: Matt Smith
Rick Jenson
Davor Gjurassic
Paul Neal